



PROSPER
PORTLAND
Building an Equitable Economy

DATE: August 14, 2019
TO: Board of Commissioners
FROM: Kimberly Branam, Executive Director
SUBJECT: Report Number 19-36

Approving the Terms of the Lents Town Center Phase 2 Project Involving the Development and Conveyance of Prosper Portland-Owned Real Property at SE 92nd Avenue and SE Harold Street in the Lents Town Center

BOARD ACTION REQUESTED AND BRIEF DESCRIPTION

Adopt Resolution No. 7328 and 7329

These actions by the Prosper Portland Board of Commissioners (Board) will authorize the Executive Director to negotiate and execute various real estate and funding agreements to complete Lents Town Center Phase 2, a mixed-use, mixed-income development project located on 4.8 acres of Prosper Portland-owned real property at SE 92nd Avenue between SE Ramona Street and SE Harold Street in the Lents Town Center Tax Increment Finance (TIF) district on (see a site Map in Attachment A).

When complete, Lents Town Center Phase 2 will include:

- Redevelopment of 40,698 square feet of existing buildings known as the Bakery Blocks into a neighborhood commercial center with a public plaza, neighborhood tool library, and renovated commercial spaces.
- Development of approximately 244 residential rental units with a mix of affordable and market rates in compliance with the City of Portland (City) Inclusionary Housing policy, and associated infrastructure and parking.
- Development of affordable residential rental units on a site known as Block F through a future Portland Housing Bureau (PHB) Notice of Funding Availability (NOFA).

STRATEGIC PLAN ALIGNMENT AND OUTCOMES

Redevelopment of Lents Town Center Phase 2 advances multiple goals of Prosper Portland's Strategic Plan, including creating vibrant communities and corridors; advancing affordability and neighborhood solutions; and connecting through communication, engagement, and community partnership.

BACKGROUND AND CONTEXT

Lents Town Center Five-Year Action Plan. On May 28, 2014 through Resolution No. 37075, Portland City Council approved the Lents Town Center Five-Year Action Plan (Action Plan), articulating a set of investment priorities and actions for Prosper Portland and its bureau partners at the City of Portland (Environmental Services, Housing, Planning & Sustainability, Parks & Recreation). Among other priorities, the Action Plan called for "game changing" redevelopment along SE 92nd Avenue and for the activation of Prosper Portland-owned properties in Lents Town Center. Over a two-year community engagement process to inform the Action Plan, the Lents community provided extensive input through

four open houses with more than 300 attendees and staff targeted outreach to communities of colors and renters.

Lents Town Center Phase 1. In October 2014, Prosper Portland released a Request for Interest (RFI) to solicit proposals from development partners for seven acres of Prosper Portland-owned and privately-owned properties in the Lents Town Center. As a result of the RFI, Prosper Portland moved forward with the following four redevelopment projects (and development partners), collectively known as Lents Town Center Phase 1:

1. Oliver Station (Palindrome Communities)
2. Lents Commons (9101 Foster LLC)
3. Woody Guthrie Place (ROSE Community Development)
4. Asian Health & Service Center (same)

Now complete, these four projects have added 263 apartments to the Lents Town Center at the following affordability levels:

Lents Town Center Phase 1 – Housing Summary		
	Units	% of Phase 1
Affordable Housing Units at 30% Median Family Income (MFI)	22	8%
Affordable Housing Units at 60% MFI	135	51%
Workforce Housing Units at 80% - 100% MFI	47	18%
Market Rate Housing	57	22%
Manager's Units	2	1%
Total	263	100%

In addition, the Lents Town Center Phase 1 projects have collectively provided more than 30,000 square feet of office space and 30,000 square feet of ground floor retail space both at market rate and enrolled in Prosper Portland's Affordable Commercial Tenancing Program.

Lents Town Center Phase 2. In May 2017, Prosper Portland entered into a nonbinding Memorandum of Understanding with Palindrome Communities (Palindrome) to advance Lents Town Center Phase 2. In fall 2018 through winter 2019, Prosper Portland, in partnership with Palindrome Communities, conducted an extensive public engagement process with the broader Lents community. In response to stakeholder feedback and in alignment with the Lents Action Plan staff have collaborated with Palindrome and PHB to advance Lents Town Center Phase 2 to its current structure.

Lents Town Center Phase 2 is structured around three main sites: Bakery Blocks, 92nd and Harold, and Block F. Following is a detailed description of the development terms:

Bakery Blocks. This 33,133 square foot, two-story commercial building was built in 1917 and has been owned by Prosper Portland since 2009. It is currently occupied by Zoiglhaus Brewing (a family-friendly local brew pub and restaurant), Carpet Outlet (a retail carpet and flooring warehouse), space for a painting contractor, and the Green Lents Community Tool Library (a free tool renting facility). If approved, Prosper Portland will sell the Bakery Blocks property to Generation Partners, LLC (Generation) (a Palindrome subsidiary) for redevelopment that maintains Zoiglhaus Brewing; demolishes and renovates the commercial space, constructs a new public plaza, and retains the Tool Library as per the following terms:

- Community Space. Generation will continue to lease to the Green Lents Tool Library or to other community non-profits approved by Prosper Portland for 10-years at \$1 per year. To support the continued space for the Tool Library, Prosper Portland is providing a \$164,114 discount to the acquisition price of the Bakery Blocks property.

- Commercial Space. Commercial space at the Bakery Blocks will be eligible for tenant improvement grants through the Prosper Portland Affordable Commercial Tenancing pilot program to support priority businesses in the Lents community.
- Open Space. Generation will design, construct, and maintain an approximately 8,000 square foot public plaza with hardscaping, bathrooms, and utilities to support the Lents International Farmers Market. To support the plaza, Prosper Portland is providing a \$290,000 discount to the acquisition price of the Bakery Blocks property, and a \$300,000 Community Livability Grant for costs associated with plaza construction.
- Public Art. Generation will pursue Regional Arts and Culture Council (RACC) funding for public art for the plaza.

The purchase price for the Bakery Blocks will be the appraised value less development credits for the permanent easement for the public plaza (\$290,000), the value of the 10-year favorable lease to the Tool Library (\$164,114), and the cost of environmental remediation (\$54,127). Prosper Portland will finance the purchase with a proposed Special Authority Loan with a five percent fixed annual interest rate, a 15-year term, and a 40-year amortization. If approved, the Bakery Blocks sale and close of financing is expected to occur in late 2019 and construction be completed over the following year.

92nd and Harold. This 2.9-acre undeveloped site is the former home to the Lents Little League and has been owned by Prosper Portland since 2000. If approved, Prosper Portland will enter into a ground lease with Palindrome for development of approximately 244 units of multifamily rental housing, including a mix of affordable and market rates in compliance with the City of Portland Inclusionary Housing policy. Based on early conceptual design and preliminary development budgets, Palindrome will develop the project in two phases, both of which will include on-site inclusionary housing: Phase 1 is anticipated to be a 149-unit building on the west side of the property and Phase 2 is envisioned as a 105-unit building on the east portion of the property.

Prosper Portland’s proposed ground lease would be implemented in two phases. Each phase would have a 99-year term and include an initial 15-year cash flow dependent payment period to support maximum debt leverage. Payments for each phase would be set according to proportionate land value of total property, whose total appraised value is \$6,283,000. The two phases are anticipated to be staged three years apart – Prosper Portland would require option payments for each phase beginning 180 days after the initial feasibility period. Option payments would be forfeited by Palindrome if the project phases do not close and commence construction. The preliminary financing structure anticipates obtaining U.S. Housing and Urban Development guaranteed 221(d)(4) loans and investing significant amounts of equity. Following is a sources and uses statement for the 92nd and Harold development:

Sources	Phase 1	Phase 2	Total	%
Equity	\$ 17,345,472	\$ 12,595,366	\$ 29,940,838	35%
Loan	\$ 26,450,518	\$ 18,391,873	\$ 44,842,391	53%
Metro TOD Grant	\$ 500,000	\$ -	\$ 500,000	1%
Developer Note (Deferred Developer Fee)	\$ 5,315,519	\$ 3,718,469	\$ 9,033,988	11%
Total Sources	\$ 49,611,509	\$ 34,705,707	\$ 84,317,216	100%
Uses	Phase 1	Phase 2	Total	%
Land	\$ -	\$ -	\$ -	0%
Hard Costs (includes 5% contingency)	\$ 36,168,558	\$ 25,487,910	\$ 61,656,468	73%
Soft Costs (includes 2% contingency)	\$ 5,505,724	\$ 3,591,170	\$ 9,096,894	11%
Developer Fee	\$ 5,315,519	\$ 3,718,469	\$ 9,033,988	11%

Financing Costs	\$ 2,621,707	\$ 1,908,158	\$ 4,529,865	5%
Total Uses	\$ 49,611,508	\$ 34,705,707	\$ 84,317,215	100%

Block F. Prosper Portland will transfer the 0.59-acre site at the southeast corner of SE 92nd Avenue and Harold Street, valued at \$1,287,060, to the Portland Housing Bureau at no cost. PHB will in turn make Block F available for construction of housing affordable to households earning up to 60 percent AMI through a future Notice of Funding Availability (NOFA).

EQUITY IMPACT

The Lents Town Center Phase 2 project will include a comprehensive set of public benefits in addition to Prosper Portland and City of Portland policies. These public benefits were largely informed from the results of public engagement and focus on housing, open space, commercial space, and equitable development, as described above. The Bakery Blocks and 92nd & Harold redevelopment/development will be subject to Prosper Portland’s Business and Workforce Equity programs and Green Building Policy. The Block F development will be subject to PHB’s Workforce Training & Hiring Program.

COMMUNITY PARTICIPATION AND FEEDBACK

In fall 2018, Prosper Portland contracted with public engagement consultants Jeanne Lawson and Associates and the City Office of Community & Civic Life’s Community Engagement Liaisons to implement a robust community engagement process that would inform Lents Town Center Phase 2. Prosper Portland’s goal for the engagement process was to hear from community members, with a specific focus on East Portland communities of color, about their priorities for housing, open space, commercial space, and equitable development. The engagement process included four In-Language Focus Groups, two Community Conversations, one In-Person Open House and one Web-Based Open House. Community feedback informed Prosper Portland’s and Palindrome’s decisions about the development program and public benefits.

BUDGET AND FINANCIAL INFORMATION

There are sufficient resources in the Lents Town Center TIF District fiscal year (FY) 2019-2020 Adopted Budget and Five Year Forecast to fund the Lents Town Center Phase 2 actions being considered by the Prosper Portland Board (see Attachment B). Furthermore, staff negotiated the Lents Phase 2 transaction with an explicit focus on being consistent with the agency’s Financial Sustainability Plan. As such, the 92nd and Harold transaction will provide a long-term source of revenue through a 99-year ground lease, and the Bakery Blocks Special Authority Loan is programmed as a Program Related Investment with a return to the agency. Financial returns for each of the proposed investments are projected as follows.

92nd and Harold Ground Lease. The net present value of the 99-year, monthly income stream from the ground lease will be approximately \$4,436,992 at a six percent discount rate and the internal rate of return (IRR) will be 8.1 percent assuming \$6,283,000 initial investment and return of appreciated land after 99 years. This IRR return is in line with Financial Sustainability Plan targets and will create a long-term income stream to Prosper Portland.

Bakery Blocks Special Authority Loan. Repayment of this loan will be made as scheduled payments of principal and interest for the 15-year term, with a balloon payment at maturity from refinance or sale of the property. Income from the \$2,445,640 loan would be from a 0.25 percent loan fee plus interest over the loan term. The IRR to Prosper Portland is projected to be 5.1 percent.

RISK ASSESSMENT

1. **Primary repayment of the Special Authority Loan for the Bakery Blocks purchase is based on tenant improvement investments by Generation and projected commercial rent rates.** If construction or lease-up is delayed or projected rents are not achieved, Generation would have to rely on outside sources of income to meet required loan payments. This risk is somewhat mitigated by the financial strength of the developer and an existing long-term lease for a majority of the leasable area that would continue to provide a source of rental income.
2. **There is a risk that Palindrome does not close on the 92nd and Harold redevelopment project.** Palindrome might terminate the transaction for one or both phases either due to inability to secure the financing or equity investment, project costs being too high, etc. This risk is somewhat mitigated by Palindrome’s significant development experience and intention to invest significant amounts their own equity. Nevertheless, if economic conditions change and Palindrome cannot perform, the property would revert to Prosper Portland. This risk is somewhat mitigated by the nominal option payments that are proposed to be paid periodically until closing on each phase of financing, and the ability of Prosper Portland to solicit new developer proposals for the 92nd & Harold property if the property reverts.
3. **Payments on the 92nd and Harold ground lease are dependent upon future market conditions, particularly residential rental rates in Lents Town Center and inflation rates on project operating expenses.** There is a risk that net operating income will be lower than projected and payments on the ground lease will be affected and returns to Prosper Portland would be delayed. This risk is somewhat mitigated by the fact that there is a long (15-year) cash flow payment period when payments would not be in default, and ultimately a catch-up payment when the project is recapitalized. Upon payment default after the cash flow payment period expires, it is assumed that payments would be continued by the mortgage lender or the property would revert to Prosper Portland through a ground lease termination.

ATTACHMENTS

- A. Site Map
- B. Lents Town Center TIF District Financial Summary

SITE MAP



LENTS TOWN CENTER TIF DISTRICT FINANCIAL SUMMARY

Financial Summary						
Five-Year Forecast						
Lents Town Center URA Fund	Revised 2 FY 2018-19	Adopted FY 2019-20	Forecast FY 2020-21	Forecast FY 2021-22	Forecast FY 2022-23	Forecast FY 2023-24
Resources						
Beginning Fund Balance	12,917,608	2,754,821	31,118,692	20,262,439	12,322,154	5,584,504
Revenue						
Fees and Charges	1,757	3,120	1,399	1,338	-	-
Interest on Investments	166,315	152,644	247,788	380,172	239,552	130,403
Loan Collections	874,582	294,913	442,253	425,871	425,870	425,871
TIF - Short Term Debt	11,988,000	11,988,000	-	-	-	-
TIF - Long Term Debt	-	32,854,053	-	-	-	-
Property Sales	-	4,400,000	-	-	-	-
Rent and Property Income	167,143	426,301	345,913	352,831	359,887	367,085
Reimbursements	124,925	54,528	18,000	18,000	18,000	18,000
Total Revenue	13,322,722	50,173,559	1,055,353	1,178,212	1,043,309	941,359
Total Resources	26,240,330	52,928,380	32,174,045	21,440,651	13,365,463	6,525,863
Requirements						
Administration						
A00029-Debt Management-LTC	38,243	38,243	38,243	38,243	38,243	20,000
Administration Total	38,243	38,243	38,243	38,243	38,243	20,000
Economic Development						
A00113-Business Development-LTC	20,000	20,000	20,000	20,000	-	-
A00380-Lean Manufacturing-LTC	10,000	10,000	-	-	-	-
Traded Sector Total	30,000	30,000	20,000	20,000	-	-
Community Economic Development Total	50,000	50,000	50,000	50,000	-	-
Business Lending						
A00208-BL -General-LTC	700,300	700,300	300,300	300,300	100,000	100,000
Business Lending	700,300	700,300	300,300	300,300	100,000	100,000
Economic Development Total	780,300	780,300	370,300	370,300	100,000	100,000
Housing						
Housing Total	8,673,412	4,482,575	3,832,506	2,031,306	1,882,316	1,185,495
Infrastructure						
Parks Total	-	1,880,864	-	-	-	-
Transportation						
A00243-Foster-52nd to 82nd-LTC	1,432,455	-	-	-	-	-
Transportation Total	1,432,455	-	-	-	-	-
Public Facilities Total	-	-	-	-	-	-
Property Redevelopment						
Commercial Property Lending						
A00365-CPRL-General-LTC	8,311,545	9,601,000	4,001,000	3,001,000	2,000,000	1,000,000
Commercial Property Lending	8,311,545	9,601,000	4,001,000	3,001,000	2,000,000	1,000,000
Real Estate Management						
A00325-Lents Little Lge Flid-LTC	10,500	20,000	-	-	-	-
A00326-Bakery Block-LTC	334,438	461,462	-	-	-	-
A00329-MetroAuto Bldg & Lot-LTC	2,599	25,113	25,113	25,113	25,113	25,113
A00509-91st and Foster	51,869	-	-	-	-	-
A00554-Dagel Triangle-LTC	15,000	8,500	8,500	8,500	8,500	8,500
A00557-Tate Lot-LTC	18,000	11,200	11,200	11,200	11,200	11,200
Real Estate Predevelopment	-	-	-	-	-	-
A00325-Lents Little Lge Flid-LTC	-	110,000	-	-	-	-
A00326-Bakery Block-LTC	-	10,000	-	-	-	-
Real Estate Disposition	445,906	680,017	73,555	73,555	73,555	73,555
Redevelopment Strategy						
A00331-Project Development-LTC	500,000	500,000	500,000	500,000	500,000	500,000
Redevelopment Strategy Total	520,000	500,000	500,000	500,000	500,000	500,000
Redevelopment Grants						
A00130-CLG-General-LTC	270,000	270,000	270,000	270,000	280,000	280,000
A00501-Prosperity Investment Program (PIP) Grant-LTC	1,015,000	1,015,000	500,000	500,000	500,000	500,000
Redevelopment Grants	1,285,000	1,285,000	770,000	770,000	780,000	780,000
Property Redevelopment Total	10,562,451	12,066,017	5,344,555	4,344,555	3,353,555	2,353,555
Total Program Expenditures	21,486,861	19,247,999	9,585,604	6,784,404	5,374,114	3,659,050
Personnel Services	406,279	272,035	280,366	280,771	292,010	275,035